

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 IO-13 AGR-05 ARAE-00 /096 W

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P 201910Z AUG 76

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 8001

C O N F I D E N T I A L SANTO DOMINGO 4056

E.O. 11652: GDS

TAGS: EFIN, ETEL, DR

SUBJECT: DOMINICAN BALANCE-OF-PAYMENTS SITUATION

REF: SANTO DOMINGO 3974

1. AMBASSADOR AND ECONOMIC COUNSELOR MET FOR AN HOUR YESTERDAY WITH ALEXANDER KAFKA, BRAZILIAN EXECUTIVE DIRECTOR OF THE IMF. KAFKA, WHO HAS BEEN INTIMATELY INVOLVED WITH THE DOMINICAN FINANCIAL AND ECONOMIC SITUATION FOR THE PAST DECADE, HAS SPENT THE PAST TWO DAYS CLOSETED WITH CENTRAL BANK OFFICIALS REVIEWING THE DOMINICAN BALANCE-OF-PAYMENTS SITUATION.

2. KAFKA DESCRIBED THE SITUATION AS PRECARIOUS. HE ESTIMATED THAT THE DOMINICAN B/P DEFICIT FOR 1976 AT DOLLARS EIGHT-FIVE MILLION WITH THE POSSIBILITY OF IT BEING SOMEWHAT HIGHER IF HIS ASSUMPTION THAT REMAINING UNSOLD SUGAR WOULD BE SOLD AT AN AVERAGE ELEVEN CENTS A POUND (YESTERDAY'S SPOT MARKET WAS BELOW TEN CENTS). HE BELIEVED THAT BY USING THE DOLLARS FIFTY MILLION THAT THE CENTRAL BANK HAS IN RESERVE TOGETHER WITH IMF COMPENSATORY FINANCING OF DOLLARS THIRTY-FIVE MILLION THE GAP COULD JUST ABOUT BE OVERCOME. HE WAS CONFIDENT THAT THE GODR WOULD APPLY FOR IMF COMPENSATORY FINANCING AND BELIEVED THAT THE GODR PROBABLY QUALIFIED, ALTHOUGH DOMINICAN ELIGIBILITY TO PARTICIPATE NOW WOULD FIRST HAVE TO BE

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THOROUGHLY EXPLORED BY THE IMF STAFF.

3. KAFKA CONTINUED THAT AT BEST, THE GODR WOULD BE "SAILING VERY CLOSE TO THE WIND." ANY SLIGHT CHANGE COULD CAPSIZE THE FINANCIAL PICTURE. HE FOUND BALAGUER TO BE ADMIRABLY PRUDENT IN THIS QUITE PRECARIOUS B/P SITUATION.

4. THE CONVERSATION TURNED TO REPAYMENT OF PL 480 INDEBTEDNESS. KAFKA CHARACTERIZED AS "UTTER NONSENSE" ALLEGATION THAT BALAGUER HAD THE FUNDS BUT WAS MERELY RELUCTANT TO MEET HIS OBLIGATIONS. "THE MONEY IS JUST NOT THERE," KAFKA SAID. KAFKA TOOK THE STRONG STAND THAT THE GODR WOULD BE UNWISE TO BORROW FROM COMMERCIAL BANKS TO MEET PAYMENTS DUE UNDER PL 480 FOR TO DO SO WOULD ADVERSELY AFFECT HIS CREDIT STANDING WITH THE COMMERCIAL BANKERS. ALTHOUGH HE NORMALLY OPPOSED STRETCH-OUT OF DEBT PAYMENT, KAFKA SAID THAT IN HIS CONSIDERED JUDGMENT A GODR REQUEST FOR PL 480 STRETCH-OUT SHOULD BE VERY SERIOUSLY CONSIDERED BY WASHINGTON AS WARRANTED. HE INDICATED THAT HE AND THE IMF STAFF WOULD BE AVAILABLE FOR CONSULTATION ON ANY ASPECT OF THE DOMINICAN B/P QUESTION, IF OTHER WASHINGTON AGENCIES SO DESIRED.

5. IN ORDER THAT THE DOMINICAN FINANCIAL PICTURE MAY IMPROVE NEXT YEAR, THE GODR WOULD HAVE TO IMPOSE A MUCH TIGHTER CREDIT POLICY, KAFKA CONTINUED. EFFECTIVE IMPLEMENTATION OF SUCH A POLICY WOULD IN HIS JUDGMENT CORRECT CURRENT IMBALANCES BY THE END OF 1977 (PRIOR TO THE 1978 ELECTIONS). WE OBSERVED THAT SOME BANKERS AND BUSINESSMEN IN THE DOMINICAN REPUBLIC FELT THAT DUE TO ELECTRICITY SHORTAGES AND REDUCTION IN FOREIGN EXCHANGE AVAILABILITY, THE ECONOMY HAD SLOWED ENOUGH. KAFKA REPEATED THAT IN HIS VIEW A MUCH TIGHTER CREDIT POLICY WOULD BE REQUIRED TO RECTIFY THE SITUATION BY THE END OF 1977.  
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## Message Attributes

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